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# CORRESPONDENCE MEMORANDUM

**DATE:** April 20, 2011

**TO:** Deferred Compensation Board

**FROM:** Robert C. Willett, CPA
Chief Trust Financial Officer

**SUBJECT:** Participant Fee Recommendations

**Recommendation:** Staff recommends no change to the administrative fee paid by Wisconsin Deferred Compensation Program (WDC) participants at this time. Fees should be reviewed again next year to assure adequate reserves are being maintained to administer the program.

**Background:** The Board maintains an account that is used to pay the administrative expenses for the WDC. These expenses consist primarily of the administrative services contract with Great-West Retirement Services, but also include the costs for Employee Trust Funds staff, audits and other plan expenses.

Revenues to fund administrative expenses come from participant fees, investment provider reimbursements and investment income on the account balance. During recent years, the following revenues and expenses were recorded in the administrative account ($ in millions).

| | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **January 1 Account Balance** | $2,212 | $2,718 | $2,730 | $1,858 |
| **Revenues** | | | | |
| Participant Fees | 1,206 | 1,065 | 1,085 | 1,340 |
| Investment Provider Reimbursements | 1,280 | 988 | 1,325 | 1,811 |
| Investment Earnings & Other | 105 | 124 | 162 | 119 |
| Total Revenues | 2,591 | 2,177 | 2,572 | 3,270 |
| **Expenses** | | | | |
| Administrative Services Contract | 2,645 | 2,534 | 2,421 | 2,305 |
| DRO Fees | 14 | 15 | 19 | 12 |
| ETF Administration & Miscellaneous | 157 | 134 | 144 | 81 |
| Total Expenses | 2,816 | 2,683 | 2,584 | 2,398 |
| **December 31 Account Balance** | $1,987 | $2,212 | $2,718 | $2,730 |
| **Account Balance as % of Projected Annual Expenses** | 69% | 79% | 101% | 106% |

Reviewed and approved by Jon Kranz, Director, Office of Budget and Trust Finance.

Signature ________ Date 4/20/11

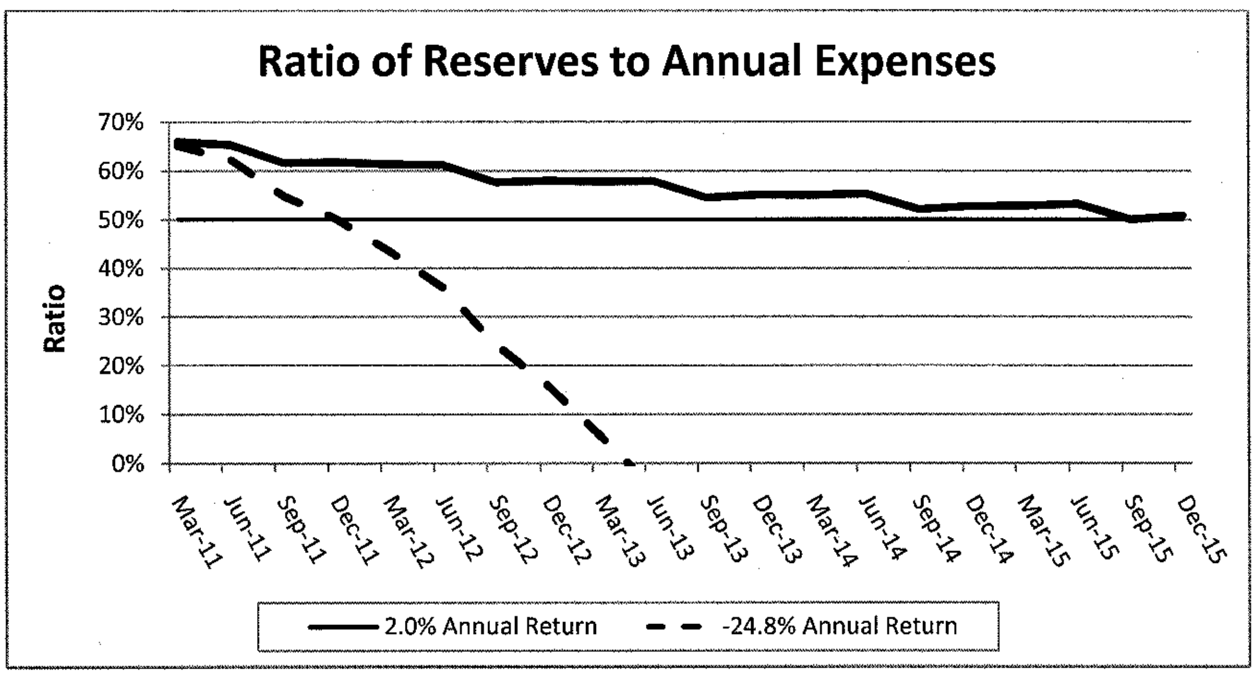
| Board | Mtg Date | Item # |
|---|---|---|
| DC | 05/17/2011 | 4 |

The Board's goal for the administrative account has been to maintain an account balance equal to fifty percent (50%) of projected annual operating expenses. This balance assures that funds will be available to pay expenses when due, and provides a cushion against reduced participant fees and investment provider reimbursements that would occur during a market downturn. At 69%, the account balance as of December 31, 2010, exceeds that target.

The plan's two primary sources of revenue, participant fees and investment provider reimbursements, are both closely correlated to plan assets. The market decline in 2008 reduced plan assets below the level needed to generate the revenues needed to fund plan expenses. A strong market rebound in 2009 and 2010 has lifted plan assets above 2007 levels and near the level needed to generate adequate revenues for plan expenses.

Our projections show that an average annual equity investment return of only 2.0% will be needed to grow plan assets to the level required to maintain the reserve balance above the fifty percent (50%) target over the next five years. If equity returns average less than 2.0% over the long term, the reserve balance will drop below the Board's target level, and a participant fee increase may be required in the future.

An average annual equity investment return of -24.8% would lower the reserve balance near the 50% target by the end of 2011 and totally exhaust the reserve by mid-2013. Under this scenario, the Board would need to consider a participant fee increase in 2012 to stabilize the reserve fund.




Based on the current reserves in the Board's administrative account, no action is necessary at this time. While plan-specific financial data is not yet available for the first quarter of 2011, overall market returns have been favorable during this period, making it unlikely that a participant fee increase will be required in the next year.

The next scheduled review of participant fees will be at the May 2012 Board meeting unless market conditions make an interim review prudent.